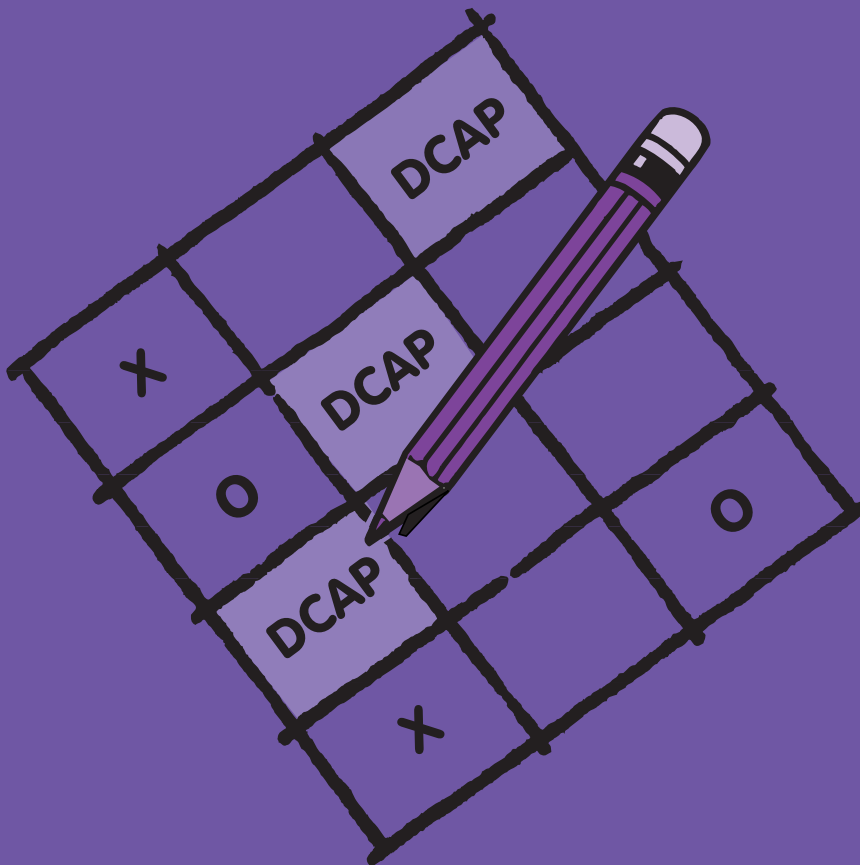


Employee-Friendly Dependent Care Assistance Programs (DCAPs) are a Win-Win



An Employer's Guide
to Promoting the Use of DCAPs

The American Business Collaboration (ABC; www.abcdependentcare.com), a coalition of leading U.S. companies partnering for over 17 years to ensure that their employees have access to quality dependent care programs to help them manage their work and personal responsibilities, has joined with Corporate Voices for Working Families (CVWF; www.cvworkingfamilies.org), the leading national business membership organization striving to improve the lives of America's working families, to address an issue of real importance for working parents and caregivers—the growing cost of child and dependent care.

In 2007, the ABC and CVFW began a legislative initiative to increase the cap on Dependent Care Assistance Programs (DCAPs) from the current maximum of \$5,000—a figure that has been unchanged since 1986—to \$7,500. In today's dollars, this tax benefit is worth only \$2,800, while the average cost of care for an infant ranges from \$4,000 to \$14,000 a year. Over the last year, ABC and CVFW have made great progress in introducing an amendment to the federal law increasing the pre-tax set aside allowed and will continue their efforts moving forward to support this much needed change.

Recognizing however, that any program has little value if employees don't participate in it, the ABC and CVFW have decided to complement their work to raise the ceiling on DCAPs by promoting ways to make these programs more user-friendly to employees. That's why the ABC and CVFW have developed a guide for employers and a companion piece for employees. These materials provide information to employers and employees alike about the best practices in DCAP design and administration and offer some tips and suggestions for making participation in a plan as easy and foolproof as possible.

We hope you find the information helpful. You're welcome to share and distribute these materials as best suits your needs. You can use some or all of the employee materials, put them on your company intranet or in a newsletter, or create a link to the materials at www.abcdependentcare.com. Please attribute the materials to the American Business Collaboration.

An Overview of DCAPs

Chances are your company already offers a Dependent Care Assistance Program (DCAP), a flexible spending account to help employees pay for child care or dependent care. But if not, consider this helpful and cost-effective employee benefit.

According to federal law, any employer can establish a DCAP, allowing employees to set aside up to \$5,000 of pre-tax income (or a lower ceiling, if the employer chooses) to help cover the cost of:

- child care,
- elder care, or
- care of a disabled spouse or disabled dependent.

Employees do not have to pay federal income taxes or Social Security and Medicare taxes on the funds they've set aside. They can save—depending on their incomes—between \$1,100 - \$2,600 a year on their child care or dependent care expenses.

For lower-wage employees, participation in a DCAP may help them qualify for the federal Earned Income Tax Credit (EITC) or may increase their EITCs because DCAP participation lowers the taxable income used to calculate eligibility for the EITC and to calculate the amount of the EITC.

Companies benefit too. They don't have to pay their share of Social Security and Medicare taxes on funds that are set aside in DCAPs—a savings of 7.65% of total employee contributions.

Key Rules for DCAPs

- DCAPs are available to employees so long as they need the care to work or look for work. For married couples, both the employee and the spouse must need the care to work or look for work, or one spouse must be a full-time student, or unable to care for him/herself.
- DCAPs can be used for the care of any child under age 13 or for older children or other dependents who are disabled and not physically or mentally able to care for themselves.
- The child or dependent receiving the care must live with the employee during the tax year when the DCAP is in effect. And the employee must claim the person as a dependent on his/her tax return for that year.
- Employees must provide the caregiver's Social Security number or taxpayer identification number along with a receipt of services to claim their DCAP reimbursements.
- The company's benefit plan for the DCAP program outlines the Qualifying Life Events that allow employees to change their DCAP contribution during the plan year. These may include a change in a care provider, care needs, or employment status of a spouse.
- Under the IRS Code, DCAP plans cannot discriminate in favor of more highly compensated employees. If employers fail nondiscrimination tests, they may be required to send additional taxes to the IRS and/or adjust the number or contribution of higher-paid employees in the plan.

The Potential Power of DCAPs Often Goes Unused

Despite the many benefits of DCAPs, you may find that many employees who qualify for DCAPs don't participate at all or don't take full advantage of them.

DCAPs involve taxes, and some employees shy away from dealing with the complexities of anything that has to do with the IRS.

Of course, just about anything that has to do with taxes is complicated. Besides the DCAP, employees with child care or dependent care expenses can take advantage of the federal Dependent Care Tax Credit (DCTC). And some states offer their own child and dependent care tax credits.

DCAPs also interact with the federal Earned Income Tax Credit (EITC) which is available to many low-income working families. But as noted, the good news is that by lowering taxable incomes, employees can improve the chances that their families qualify for the EITC or that the amount of their EITC is increased.

Depending on their income, family situation, and what state they live in, some people are better off claiming the federal and state DCTC, some claiming the DCAP, and some a mixture of both.

Employees may become overwhelmed by the choices and walk away from a DCAP even though choosing one may be in their best interest. Making the right decision for their families does require making some calculations to estimate their tax savings under each of the scenarios that could apply to them: for example, the value of using a DCAP alone, a DCTC alone, or both.

Employees may mistakenly think that they can only use a DCAP to pay for care at a licensed child care center.

Not so. DCAPs can cover a wide range of child care situations: for example, a babysitter or nanny, backup care, nursery or preschool, before- or after-school care, or summer day camp (though not overnight camp or summer school).

DCAPs can also be used to pay for care for a child older than 13 if that child is not capable of self-care, or for a disabled adult who is the employee's dependent and lives with the employee during the plan year.

As with flexible spending accounts for health care, the rule for DCAPs is: *use it or lose it*. Any money that is not spent on care during the plan year is not refunded, so people worry that they will waste money.

In reality, this is not as big a problem as it may appear to be. Child care costs are much easier to estimate than costs for a flexible spending account for health care and most families spend considerably more than \$5,000 to pay for child care in a year. (According to the 2008 Update to *Parents and the High Price of Child Care* prepared by the National Association of Child Care Resource & Referral Agencies, the average price for infant care ranges from \$4,000 to over \$14,000 annually depending on where you live).

In addition, your company's DCAP plan includes a number of Qualifying Life Events that allow employees to change the amount they contribute to a DCAP. Besides the changes that employees are most familiar with (for example, the birth or adoption of a child), your plan may include other circumstances, such as a change in employment for a spouse or a change in a care provider. The plan most likely also includes a grace or run-out period following the plan year, during which time employees are able to submit their final claims for reimbursement.

Turning Your Company DCAP into a More User-Friendly Benefit

Communicate. Communicate. Communicate.

Employees receive information about a variety of benefits and flexible spending plans at one time during open enrollment periods. All that information and the need to make many choices can be a bewildering task for some people and very often DCAPs get lost in the shuffle.

Because most people need more than one chance to process new information, repeat the DCAP message in different forms. Try using brochures and handouts, post information on your company's intranet, have a special DCAP table at a benefit fair, and hold on-site presentations.

Explain DCAPs and the IRS rules that govern them in easy-to-understand language. Develop some Frequently Asked Questions that address important topics such as how the reimbursement process works, the circumstances under which employees can change their contributions, the range of care options covered, and how the DCAP may or may not affect other federal tax benefits. The FAQs included with the employee guide that was developed by the ABC as a companion piece to this guide are a good place to start.

If possible, hold an orientation session on dependent care benefits that's separate from any session the company sponsors on health benefits.



Texas Instruments (TI) includes articles about flexible spending accounts on its company intranet for several weeks before and during its annual open enrollment period. Some of the articles feature the experiences of Tiers who have used flexible spending accounts—a great way to help other employees see how they too can benefit from these plans. The articles—there's also a fact sheet—include a link to an on-line Flexible Spending Account Estimator, the benefits website, and instructions on where to find the TI benefits guide, which can be downloaded. The website includes FAQs about TI flexible spending accounts.

TI also puts up posters at its work sites and some locations have on-site tables, either as stand-alone events, or as part of larger benefit fairs that include health insurance vendors.

Use other methods to reach out to parents and elder caregivers who could benefit by participating in a DCAP.

For instance, some companies have networking groups for parents or elder caregivers and information about DCAPs can be targeted to them. Send the members an e-mail reminder about DCAPs several weeks before the open enrollment period begins.

Ensure that the groups in your company that are responsible for processing leaves or changes in health care coverage share information with employees about enrolling in a DCAP when appropriate.

If your company sponsors a child care center, summer camp, backup care, or any other type of dependent care program, ask the vendor to distribute the company's outreach materials on DCAPs to your employees.

Include information about DCAPs in a section on your work-life website that employees can access year-round. In addition to a fact sheet and FAQs, you may want to have a link to your benefits plan and/or a link to the plan administrator's website.



The State of New York has a work-life website that details all the resources available to help employees address their work-life issues. One section of the site is dedicated to information about the state's dependent care accounts. The site was designed to be especially user-friendly and includes a program summary, the IRS rules and requirements, an overview of how the program is administered, tips for claims reimbursements, and a set of FAQs. All forms needed to participate in the program are on the site too, and can be downloaded. Besides using the website, employees can attend on-site information sessions and benefit fairs to learn more.

Don't just communicate during the open enrollment period.

Include testimonials and personal stories of employees using DCAPs and how the plans helped them pay their child and dependent care expenses in employee newsletters and work-life communications throughout the year.

Ask the plan administrator to send reminders to employees about submitting their claims in a timely manner so they won't forfeit any of the funds they have set aside. If possible, do this quarterly, but at the very least, several months before the plan year winds down.

Improve Your Plan's Administration

DCAPs can be a hassle. Along with the fact that it's tough for some families to set aside money in a DCAP and wait to be reimbursed, these benefits can tangle employees up with paperwork—but it doesn't have to be this way. Since most companies use a third-party company to process these benefits, it's important to make sure that your plan administrator is offering your employees the most streamlined and up-to-date service possible.

Check to see if your plan already has the following features and if not, find out how they can be put in place.

The plan administrator:

- is committed to speedy turnaround times: all claims are processed within five days (or less) after they are received and reimbursements are issued daily.
- does not impose artificial limits on the times when employees can submit claim forms but allows them to submit claims whenever and as often as they want.
- gives employees the option of direct deposit of reimbursements into their bank accounts.
- has all forms on-line to download.
- provides a toll-free number to answer questions about DCAPs, claims, and the reimbursement process.
- has an on-line benefits calculator available. The calculator asks the user to input information such as family income, estimated care expenses, and estimated DCAP set aside and then calculates the employee's savings (including savings from federal income tax, Social Security, and Medicare taxes).

Ideally, the plan administrator:

- has an option to submit claim forms on-line.
- provides for any unpaid balance to be paid automatically after the employee's next payroll deduction for those situations when employees don't have enough money in their DCAPs to cover all their claimed expenses.
- offers employees the opportunity to check their accounts on-line to see how much they have in their account—in real time.
- includes the capability—using the on-line benefits calculator—of estimating the savings from a DCAP not only on employees' federal taxes but also on their state income taxes.



Nationwide's plan administrator offers the company's employees a Pay My Provider feature. An employee registers on-line, providing information on the type of care he or she is using, the caregiver, and cost of the care. Then the payment is made to the caregiver automatically each week—without the employee having to do anything else. If there is a change in the situation, it's up to the employee to make the report. Caregivers receive payment by check or direct deposit, whichever they prefer, for services they have provided. Employees can also use the on-line tools to check on their up-to-the minute account activity.

Your Plan's Features Can Affect Its Use

Review your DCAP plan documents to make sure that your program is as flexible as it can be.

While many of the specifics of DCAPs must comply with IRS requirements, your company does have some choice in determining which Qualifying Life Events will be part of its plan, and whether or not the plan will offer some time after the plan year (a grace or run-out period) during which the employee can still submit receipts and receive reimbursement.

In addition to the most familiar life events (a change in marital status or the number of dependents), the IRS permits employees to change their DCAP contributions for some reasons connected to the care situation itself: for example, a change in providers or a change in care necessitated by a change in the employee's or spouse's employment. There are also several other qualifying situations that the IRS allows. Your plan may already include these situations (in which case you need to make sure your employees know about them and about how to make a change in the DCAP to reflect them). But if not, see if these additional Qualifying Life Events can be written into next year's documents.

Consider contributing to the DCAP on behalf of employees, even if it's only a small contribution and only for lower-wage employees.

A modest contribution (some companies have offered as little as \$200 - \$700 per year to employees based on a sliding scale — in some cases less than the amount that the employer saves in payroll taxes by offering a DCAP plan) has been shown to greatly increase the rate of participation in DCAPs. Not only does this contribution increase the value of the benefit to the employee, it may help a company meet the IRS non-discrimination tests because the subsidy encourages more participation by lower-wage employees and thus avoids the possibility that the plan will benefit only more highly compensated workers.



Providian Financial Corporation offers a Dependent Care Flexible Spending Account with a dollar-for-dollar company match of up to \$2,000 to reimburse employees for eligible dependent care expenses. The program provides two distinct benefits for employees: the ability to contribute pre-tax dollars and the opportunity to have their contributions matched by their employer. The program is available to benefits-eligible employees with at least three months of service. Employee participation in the program has been growing every year.



Cornell University's program is designed to assist faculty and staff with covering the costs of eligible child care for infants, toddlers, and preschool and school-age children. Child care grant awards of up to \$5,000 are deposited into a Select Benefits account. The amount of the award is based on a family's income, the age of the children in care, and the actual cost of care. If the grant subsidy that an employee receives is less than \$5,000 but the family's child care expenses exceed that amount, the employee can make his or her own contribution into the account up to the \$5,000 maximum allowed by the IRS.

Making your DCAP program as flexible and user-friendly as possible will add value to an already existing program, benefiting both your company and its employees. Communicating these features and encouraging employees to participate in this program will help them save a significant amount of money each year on their child and dependent care costs.

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